

ORIGINAL



0000128350

BEFORE THE ARIZONA CORPORATION COMMISSION

RECEIVED

2011 AUG 16 P 3:30

COMMISSIONERS

GARY PIERCE, Chairman
PAUL NEWMAN
SANDRA D. KENNEDY
BOB STUMP
BRENDA BURNS

AZ CORP COMMISSION
DOCKET CONTROL

IN THE MATTER OF THE APPLICATION
OF ARIZONA-AMERICAN WATER
COMPANY, AN ARIZONA
CORPORATION, FOR A
DETERMINATION OF THE CURRENT
FAIR VALUE OF ITS UTILITY PLANT
AND PROPERTY AND FOR INCREASES
IN ITS RATES AND CHARGES BASED
THEREON FOR UTILITY SERVICE BY ITS
ANTHEM WATER DISTRICT AND ITS
SUN CITY WATER DISTRICT.

DOCKET NO. W-01303A-09-0343

IN THE MATTER OF THE APPLICATION
OF ARIZONA-AMERICAN WATER
COMPANY, AN ARIZONA
CORPORATION, FOR A
DETERMINATION OF THE CURRENT
FAIR VALUE OF ITS UTILITY PLANT
AND PROPERTY AND FOR INCREASES
IN ITS RATES AND CHARGES BASED
THEREON FOR UTILITY SERVICE BY ITS
ANTHEM/AGUA FRIA WASTEWATER
DISTRICT, ITS SUN CITY WASTEWATER
DISTRICT AND ITS SUN CITY WEST
WASTEWATER DISTRICT.

DOCKET NO. SW-01303A-09-0343

Arizona Corporation Commission

DOCKETED

AUG 16 2011

DOCKETED BY	///
-------------	-----

DIRECT TESTIMONY OF DAN L. NEIDLINGER

ANTHEM/AGUA FRIA WASTEWATER DISTRICT DECONSOLIDATION

Q1. PLEASE STATE YOUR NAME, ADDRESS AND OCCUPATION.

A1. My name is Dan L. Neidlinger. My business address is 3020 North 17th Drive,
Phoenix, Arizona. I am President of Neidlinger & Associates, Ltd., a consulting firm
specializing in utility rate economics.

1 **Q2. DID YOU PREVIOUSLY FILE DIRECT AND SURREBUTTAL**
2 **TESTIMONY IN THIS PROCEEDING AS WELL AS TESTIMONY REGARDING**
3 **THE CONSOLIDATION OF A PORTION OF ARIZONA-AMERICAN WATER**
4 **COMPANY'S WATER AND WASTEWATER DISTRICTS ?**

5 A2. Yes, I did.
6

7 **Q3. ON WHOSE BEHALF ARE YOU APPEARING IN THIS PROCEEDING?**

8 A3. I am appearing on behalf of the Anthem Community Council ("Anthem"). Anthem
9 has intervened in this proceeding on behalf of over 8,800 water and wastewater customers
10 of Arizona-American Water Company ("AAWC" or "Company").
11

12 **Q4. WHAT IS THE PURPOSE OF THIS ADDITIONAL DIRECT TESTIMONY?**

13 A4. My testimony addresses certain issues related to the deconsolidation of the Anthem
14 and Agua Fria wastewater operations that are the subject of the Company's April 1, 2011
15 Application. In Decision No. 72047 dated January 6, 2011, the Commission ordered the
16 Company to file by that date proposed stand-alone revenue requirements for the two
17 districts pursuant to a settlement agreement among the Company, ACC Staff, RUCO and
18 Anthem late last year in an earlier stage of this proceeding. After previously considering in
19 this proceeding the pros and cons of consolidation of several of the Company's other water
20 and wastewater districts, the Commission decided against consolidation for the Company at
21 this time due, in part, to large differences in cost of service among the districts.
22

23 **Q5. WHY SHOULD THE ANTHEM AND AGUA FRIA WASTEWATER**
24 **DISTRICTS BE DECONSOLIDATED?**

25 A5. The underlying need for deconsolidation is the large difference in cost of service
26 between the two districts as evidenced in the Company's April 1, 2011 filing. Cost of
27 service is the single most important criterion in the development of fair and reasonable
28 revenues and related rates for a utility in a regulated environment. In this instance, the

1 current rates are not cost-based. This is not only inequitable, but it creates distortion in
2 price signals to both Anthem and Agua Fria customers concerning the use of the
3 wastewater services provided by the Company.

4 Anthem's wastewater infrastructure is self-contained and designed to serve all of
5 Anthem's wastewater needs, and only Anthem's needs. It is not connected to any of the
6 treatment facilities owned by the Company to serve Agua Fria customers. It has its own
7 treatment plant. Under present rates, Anthem's customers are unfairly required to provide
8 a return on utility plant that they do not use since that plant is not interconnected with the
9 Anthem system. An example is the Company's Northwest Treatment Plant ("Northwest
10 Plant"). Under consolidated rates, Anthem wastewater customers bear the burden of a
11 significant portion of the costs of this treatment facility. Deconsolidation cures this
12 inequity.

13
14 **Q6. WHAT ARE THE MAJOR ISSUES ADDRESSED IN YOUR TESTIMONY?**

15 A6. There are two. The first major issue is the potential rate shock to Agua Fria
16 customers accompanying the deconsolidation of these two wastewater districts. The
17 Commission recently approved a significant (54%) increase in wastewater rates for the
18 consolidated district. Under the Company's proposed deconsolidation filing, Anthem's
19 overall increase would be reduced to 15.46% percent from test year revenue levels whereas
20 Agua Fria would experience an increase of 139.73%. When measured from current
21 revenue levels, the Agua Fria increase is 60%. I am proposing a three-step, three (3) year
22 phase in of these large revenue adjustments to mitigate the rate shock impact on Agua Fria
23 customers which would otherwise occur.

24 The second major issue addresses the Company's proposed revenue increases to
25 Anthem's residential and commercial customers in order to recover a short-fall in
26 wholesale revenues from the City of Phoenix due to a renegotiation in 2011 of the
27 wastewater treatment contract between the Company and the City. This change is clearly
28 outside the scope of the 2008 test year and should not be considered in this deconsolidation

1 matter. The purpose of this proceeding is to disaggregate the wastewater plant values for
2 the Anthem and Agua Fria wastewater systems, respectively, without changing the overall
3 Anthem/Agua Fria wastewater revenue the Company has been authorized to recover and
4 the expense and rate base findings of the Commission in Decision No. 72047.
5 Accordingly, the recent changes to the wholesale treatment rate charged the City of
6 Phoenix should be dealt with in the next rate case along with the many other changes that
7 have taken place since 2008.

8
9 **Q7. WHAT IS THE MAGNITUDE OF THE REVENUE SHIFT FROM THE**
10 **ANTHEM DISTRICT TO THE AGUA FRIA DISTRICT ON A**
11 **DECONSOLIDATED BASIS?**

12 A7. On a deconsolidated basis, over \$2.4 million of revenue responsibility is transferred
13 from Anthem to Agua Fria based on the Company's Statements and Schedules. This is a
14 sizeable shift since it represents 18% of the combined revenue requirement of \$13.3 million
15 authorized in Decision No. 72047. One of the major reasons for this large disparity is the
16 change, on a deconsolidated basis, in the ratemaking treatment of the Northwest Plant. As
17 previously noted, on a consolidated basis, Anthem shoulders a large portion of the
18 estimated \$1.9 million¹ revenue requirement of the Northwest Plant. On a deconsolidated
19 basis, Agua Fria is responsible for 100% of the allocated revenue requirement associated
20 with this plant which heretofore has been allocated on a consolidated basis to Anthem and
21 Agua Fria. As also previously mentioned, Anthem has its own wastewater treatment plant
22 and none of its wastewater is treated by the Northwest Plant.

23 ///

24 ///

25 ///

26 ///

27 _____

28 ¹ Revenue requirement estimate per Company response to Anthem data request 1.2.

1 Q8. PLEASE EXPLAIN YOUR 3-STEP PHASE IN PLAN FOR
2 DECONSOLIDATING THE REVENUES OF THE ANTHEM/AGUA FRIA
3 WASTEWATER DISTRICT.

4 A8. I am proposing a three-step revenue and rate adjustment plan to be implemented over
5 a period of three (3) years. Under this plan, annual adjustments of approximately \$800,000
6 would be made to progressively increase Agua Fria's rates and reduce Anthem's rates. The
7 Company would remain whole since there would be no change in overall revenue levels.

8
9 Q9. HAVE YOU PREPARED ANY EXHIBITS THAT SHOW THE IMPACT OF
10 YOUR PLAN ON THE REVENUES OF BOTH ANTHEM AND AGUA FRIA?

11 A9. Yes. The revenue impact on Anthem and Agua Fria under each step is shown on the
12 attached Exhibit DLN-1 and Exhibit DLN-2, respectively. Adjustments would be made to
13 currently approved revenue levels rather than the test year revenue levels shown in the
14 Company's deconsolidation filing. For Anthem, class revenues would be reduced by
15 9.12% in Step 1, 10.03% in Step 2 and 11.15% in Step 3. Agua Fria class revenues would
16 be increased by 20.95% in Step 1, 17.32% in Step 2 and 14.77% in Step 3. Equal
17 percentage adjustments would be applied to each customer class. No upward or downward
18 adjustment is proposed for effluent revenues. The step adjustment approach I am
19 recommending would significantly mitigate the rate shock issue facing the Company's
20 Agua Fria wastewater customers.

21
22 Q10. PLEASE EXPLAIN THE BOTTOM SECTION OF EXHIBITS DLN-1 AND
23 DLN-2 CAPTIONED "TOTAL ADJUSTMENT FROM TEST YEAR REVENUES".

24 A10. These sections are provided to link the three-step phase in plan with the Company's
25 filing which begins with test year revenues. For both Anthem and Agua Fria, Step 3
26 revenue amounts are equal² to the "Deconsolidated Rates" column shown on the

27 _____
28 ² There is a small, unexplained difference between the Company total for Anthem's
deconsolidated rates and the Step 3 revenue total for Anthem shown on Exhibit DLN-1.

1 Company's respective A-1 schedules. The beginning point for the three-step phase in plan
2 is the current consolidated revenue requirement of \$13.3 million recently approved by the
3 Commission.

4
5 **Q11. HOW DO YOUR CLASS REVENUE REQUIREMENTS FOR ANTHEM AT**
6 **THE END OF STEP 3 DIFFER FROM THOSE PROPOSED BY THE COMPANY?**

7 A11. A comparison of revenues for Anthem by customer class at the end of Step 3 with
8 the class deconsolidated revenue proposals of the Company is provided on Exhibit DLN-3.
9 As previously mentioned, the Company reduced revenues for the wholesale class ("OWU")
10 to reflect a change in the treatment rates charged to the City of Phoenix. The Company's
11 proposed OWU revenues of only \$387,153 are \$903,357 less than the \$1,290,510 approved
12 by the Commission in January. At Step 3, OWU revenues are \$937,563 or \$550,410
13 greater than the revised contract amount. As shown on Exhibit DLN-3, the Company is
14 improperly attempting to shift this short-fall to the residential and commercial wastewater
15 customers of Anthem. It would be wrong for the Commission to alter its customer class
16 revenue requirements for Anthem in order to address a transaction that occurred three years
17 after the end of the test year in this case. This issue is strictly a Company/City of Phoenix
18 matter that has no ratemaking relevance at this time.

19
20 **Q12. DO YOU HAVE ANY OTHER COMMENTS WITH RESPECT TO THE**
21 **APRIL 1, 2011 APPLICATION AND TESTIMONY FILED BY THE COMPANY?**

22 A12. Yes. Company witness Sandra L. Murrey in her direct testimony requests that the
23 Commission reconsider "whether a winter-average rate design is appropriate for both
24 districts in the event of rate deconsolidation". I agree with that suggestion, at least with
25 regard to Anthem customers. I don't presume to speak for the wishes of the Agua Fria
26 customers on this issue.

27 My analysis indicates that although approximately 60% of Anthem customers would
28 benefit from this change in rate design, many of the remaining 40% would be unfairly

1 punished for maintaining mandated winter lawns pursuant to CC&R requirements. For
2 instance, 20% of the customers (high use) would experience monthly bills that exceed
3 \$100. A monthly bill of \$100 is \$26.20 per month or 35% higher than the maximum of
4 \$74.80 under the current rate design. Similarly, another 20% of the customers (low use)
5 would experience a reduction in monthly bills of 45% or more. Although the lower rates at
6 Step 3 will partially mitigate these disparities, the current rate design is preferable to the
7 winter-average rate for these customers since it would eliminate the large bill variances.
8 Moreover, the current design has much better cost of service underpinnings.

9 By way of background, Anthem asked the Commission to retain the current
10 fixed/commodity rate structure in its exceptions to the ROO which preceded Decision No.
11 72047. In addition, as part of the settlement agreement reached by the parties,
12 implementation of the winter-average residential rates proposed by the Commission's Staff
13 was delayed until June 2012. Further, I am not sure that there was a full appreciation at
14 that time as to the impact this change in rate design would have on a significant portion of
15 Anthem's wastewater customers. Thus, as previously noted, I concur with the Company's
16 suggestion that implementation of the winter-average rate design be postponed. Such
17 postponement of the effective June 2012 date would not, in my view, violate the core
18 findings and mandates of the Commission's January 6, 2011 order.

19
20 **Q13. DOES THIS CONCLUDE YOUR DIRECT TESTIMONY?**

21 A13. Yes, it does.
22
23
24
25
26
27
28

1 ORIGINAL AND THIRTEEN (13) COPIES
2 of the foregoing and attached exhibits
3 hand-delivered for filing this 16th day
4 of August, 2011 to:

5 Docket Control
6 Arizona Corporation Commission
7 1200 W. Washington Street
8 Phoenix, AZ 85007

9 COPY of the foregoing and attached exhibits
10 mailed or e-mailed this 16th day of August, 2011, to:

11 Teena Jibilian, Administrative Law Judge
12 Hearing Division
13 Arizona Corporation Commission
14 1200 W. Washington Street
15 Phoenix, AZ 85007

16 Daniel Pozefsky, Chief Counsel
17 DPozefsky@azruco.gov
18 RUCO
19 1110 W. Washington St., Suite 220
20 Phoenix, AZ 85007

21 Craig A. Marks, Esq.
22 Craig.Marks@azbar.org
23 Craig A. Marks, PLC
24 10645 N. Tatum Blvd., Suite 200-676
25 Phoenix, AZ 85028
26 Attorney for Arizona-American Water Co.

27 Lawrence V. Robertson, Esq.
28 tubaclawyer@aol.com
P.O. Box 1448
Tubac, AZ 85646-1448
Attorney for Anthem Community Council

Janice M. Alward, Chief Counsel
JAlward@azcc.gov
Maureen Scott, Esq.
MScott@azcc.gov
Robin Mitchell, Esq.
RMitchell@azcc.gov
Legal Division
Arizona Corporation Commission
1200 W. Washington
Phoenix, AZ 85007-2927

Steve Olea, Director
SOlea@azcc.gov
Utilities Division
Arizona Corporation Commission
1200 W. Washington Street
Phoenix, AZ 85007

- 1 Lyn Farmer
Lfarmer@azcc.gov
- 2 Arizona Corporation Commission
1200 W. Washington Street
3 Phoenix, AZ 85007
- 4 Robert J. Metli, Esq.
rmetli@swlaw.com
- 5 Snell & Wilmer LLP
400 E Van Buren
6 Phoenix, AZ 85004-2202
Attorneys for the Resorts
- 7 Michael Patten, Esq.
mpatten@rdp-law.com
- 8 Roshka DeWulf & Patten PLC
400 E Van Buren Suite 800
9 Phoenix, AZ 85004-2262
- 10 Greg Patterson, Esq.
gpatterson3@cox.net
- 11 916 W. Adams, Suite 3
12 Phoenix, AZ 85007
Attorneys for WUAA
- 13 Bradley J. Herrema, Esq.
BHerrema@bhfs.com
- 14 Brownstein Hyatt Farber Schreck, LLP
15 21 E. Carrillo Street
Santa Barbara, CA 93101
16 Attorneys for Anthem Golf and Country Club
- 17 Norman D. James, Esq.
njames@fclaw.com
- 18 Jay L. Shapiro, Esq.
jshapiro@fclaw.com
- 19 Patrick Black, Esq.
pblack@fclaw.com
- 20 Fennemore Craig
3003 N. Central Avenue, Suite 2600
21 Phoenix, AZ 85012
Attorneys for DMB White Tank, LLC
- 22 Joan S. Burke, Esq.
joan@jsburkelaw.com
- 23 Law Office of Joan S. Burke
24 1650 N. First Avenue
Phoenix, AZ 85003
25 Attorneys for Corte Bella Golf Club
- 26 Dan Neidlinger
dneid@cox.net
- 27 Neidlinger & Associates, Ltd.
3020 N. 17th Drive
28 Phoenix, AZ 85012

1 Frederick G. Botha
23024 N. Giovata Drive
2 Sun City West, AZ 85375

3 Troy B. Stratman, Esq.
TStratman@mackazlaw.com

4 Chad Kaffer, Esq.
CKaffer@mackazlaw.com

5 Mack Drucker & Watson, P.L.C.
3200 North Central Avenue, Suite 1200
6 Phoenix, Arizona 85012
Attorneys for Corte Bella Country Club

7 Gary Verburg, City Attorney
8 gary.verburg@phoenix.gov
Daniel L. Brown, Assistant City Attorney
9 Office of The City Attorney
200 W. Washington, Suite 1300
10 Phoenix, AZ 85003
Attorneys for City of Phoenix

11 Larry D. Woods
12 15141 W. Horseman Lane
Sun City West, AZ 85375

13 Greg Patterson
14 Water Utility Association of Arizona
916 W. Adams Street, Suite 3
15 Phoenix, AZ 85007

16 Michelle L. Van Quathem, Esq.
mvanquathem@rcalaw.com
17 Ryley Carlock & Applewhite
One E. Central Avenue, Suite 1200
18 Phoenix, AZ 85004-4417
Attorneys for Verrado Community Ass'n, Inc.

19 Pauline A. Harris Henry, President, Board of Directors
20 Russell Ranch Homeowners' Ass'n, Inc.
21 21448 N. 75th Avenue, Suite 6
Glendale, AZ 85308-5978

22 
23
24
25
26
27
28

**ARIZONA-AMERICAN WATER COMPANY
ACC DOCKET NO. SW-0130A-09-0343**

**Deconsolidation of Anthem and Aqua Fria Wastewater Districts
Proposed 3-Step Revenue Phase-In Plan
Anthem District**

DESCRIPTION	BEGINNING AMOUNT (1)	STEP CHANGE	PERCENT CHANGE	ENDING AMOUNT (1)
<u>PHASE-IN STEPS FROM PRESENT REVENUES</u>				
STEP 1 - ANTHEM:				
Present Revenues:				
Residential	\$6,931,426	-\$631,900	-9.12%	\$6,299,526
Commercial	631,735	-57,592	-9.12%	574,143
OWU	1,290,510	-117,649	-9.12%	1,172,861
Effluent	449,603	0		449,603
Total Revenues	\$9,303,274	-\$807,141	-8.68%	\$8,496,133
STEP 2 - ANTHEM:				
Step 1 Revenues:				
Residential	6,299,526	-\$631,900	-10.03%	\$5,667,626
Commercial	574,143	-57,592	-10.03%	516,551
OWU	1,172,861	-117,649	-10.03%	1,055,212
Effluent	449,603	0		449,603
Total Revenues	\$8,496,133	-\$807,141	-9.50%	\$7,688,992
STEP 3 - ANTHEM:				
Step 2 Revenues:				
Residential	5,667,626	-\$631,900	-11.15%	\$5,035,726
Commercial	516,551	-57,592	-11.15%	458,959
OWU	1,055,212	-117,649	-11.15%	937,563
Effluent	449,603	0		449,603
Total Revenues	\$7,688,992	-\$807,141	-10.50%	\$6,881,851
<u>TOTAL ADJUSTMENT FROM TEST YEAR REVENUES</u>				
CUSTOMER CLASS	TEST YEAR REVENUES	STEP 3 REVENUES	TOTAL CHANGE	PERCENT CHANGE
Residential	\$4,828,681	\$5,035,726	\$207,045	4.29%
Commercial	395,117	458,959	63,842	16.16%
OWU	733,666	937,563	203,897	27.79%
Effluent		449,603	449,603	
Total Revenues	\$5,957,464	\$6,881,851	\$924,387	15.52%

NOTE:

(1) Excluding Other Wastewater Revenues

**ARIZONA-AMERICAN WATER COMPANY
ACC DOCKET NO. SW-0130A-09-0343**

**Deconsolidation of Anthem and Aqua Fria Wastewater Districts
Proposed 3-Step Revenue Phase-In Plan
Aqua Fria District**

DESCRIPTION	BEGINNING AMOUNT (1)	STEP CHANGE	PERCENT CHANGE	ENDING AMOUNT (1)
<u>PHASE-IN STEPS FROM PRESENT REVENUES</u>				
STEP 1 - AGUA FRIA:				
Present Revenues:				
Residential	\$3,714,323	\$778,275	20.95%	\$4,492,598
Commercial	137,764	28,866	20.95%	166,630
Effluent	136,975	0		136,975
Total Revenues	\$3,989,062	\$807,141	20.23%	\$4,796,203
STEP 2 - AGUA FRIA:				
Step 1 Revenues:				
Residential	\$4,492,598	\$778,275	17.32%	\$5,270,873
Commercial	166,630	28,866	17.32%	195,496
Effluent	136,975	0		136,975
Total Revenues	\$4,796,203	\$807,141	16.83%	\$5,603,344
STEP 3 - AGUA FRIA:				
Step 2 Revenues:				
Residential	\$5,270,873	\$778,275	14.77%	\$6,049,148
Commercial	195,496	28,866	14.77%	224,362
Effluent	136,975	0		136,975
Total Revenues	\$5,603,344	\$807,141	14.40%	\$6,410,485

TOTAL ADJUSTMENT FROM TEST YEAR REVENUES

CUSTOMER CLASS	TEST YEAR REVENUES	STEP 3 REVENUES	TOTAL CHANGE	PERCENT CHANGE
Residential	\$2,588,018	\$6,049,148	\$3,461,130	133.74%
Commercial	85,979	224,362	138,383	160.95%
Effluent		136,975	136,975	
Total Revenues	\$2,673,997	\$6,410,485	\$3,736,488	139.73%

NOTE:

(1) Excluding Other Wastewater Revenues

**ARIZONA-AMERICAN WATER COMPANY
ACC DOCKET NO. SW-0130A-09-0343**

**Deconsolidation of Anthem and Aqua Fria Wastewater Districts
Proposed Deconsolidated Class Revenues vs Company Deconsolidated Class Revenues
Anthem District**

DESCRIPTION	TEST YEAR REVENUES	DECONSOL. REVENUES	INCREASE (DECREASE)	PERCENT INCREASE
ANTHEM PROPOSAL: (1)				
Residential	\$4,828,681	\$5,035,726	\$207,045	4.29%
Commercial	395,117	458,959	63,842	16.16%
OWU	733,666	937,563	203,897	27.79%
Effluent		449,603	449,603	
Total	\$5,957,464	\$6,881,851	\$924,387	15.52%
COMPANY PROPOSAL: (2)				
Residential	\$4,828,681	\$5,575,968	\$747,287	15.48%
Commercial	395,117	466,017	70,900	17.94%
OWU	733,666	387,153	-346,513	-47.23%
Effluent		449,603	449,603	
Total	\$5,957,464	\$6,878,741	\$921,277	15.46%
ANTHEM VARIANCE FROM CO.:				
Residential			-\$540,242	-11.19%
Commercial			-7,058	-1.79%
OWU			550,410	75.02%
Effluent			0	
Total (3)			\$3,110	0.05%

NOTES:

- (1) Per Exhibit DLN-1
- (2) Per Company Filing - Anthem
Wastewater Schedule A-1
- (3) Unreconciled Difference - \$3,110